

# London Bus Services Limited

## Annual Report and Financial Statements Year ended 31 March 2012

Registered Office  
Windsor House  
42-50 Victoria Street  
London SW1H 0TL

Registered in England and Wales  
Number 03914787

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25/07/2012

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# Directors' Report and Business Review (continued)

## Risk Management

The Company identifies, manages and mitigates significant areas of business risk as part of the normal course of business. The London Bus Services Limited Business Risk Management framework is set up to complement the basic management of risk by the business and to provide a framework for the organisation to ensure that business risks are appropriately identified, regularly reviewed and progress tracked on the management of key business risks.

The risks that the Company is exposed to include safety, terrorism, employee relations, reputation and financial. All key business risks are recorded on a risk register. For each risk, an owner has been identified who is responsible for implementing the mitigation strategy that has been identified.

The London Bus Services Limited Strategy Board, comprising the directors, are responsible for overseeing the risk process. The Business Risk Register, mitigation measures and identified actions are reviewed to monitor how key business risks are managed and mitigated.

## Health and Safety

The Company is committed to continuous improvement in health and safety performance. In addition to safety management as part of the normal business activity, safety objectives are identified and regularly reviewed to form short and longer term plans to improve safety and security for customers, employees and contractors as part of the regular London Bus Services Limited safety governance meeting chaired by the Operations Director. In conjunction with the Transport Policing and Enforcement Directorate of Transport for London ("TfL"), the directors of the Company liaise closely with the Metropolitan Police Transport Operational Command Unit who provide dedicated policing for the bus network.

## Employee Involvement and Communications

The Company recognises the role of its employees in enabling the Company to achieve its business objectives. This is reflected in the Board's commitment to equal opportunities and effective employee communications.

Consultation on issues affecting the workforce also takes place at regular intervals with representatives from the Company and trades unions.

## Disabled Employees

The Company values the diversity which exists in our city and aspires to this being reflected in our workforce. This is reflected not only in our recruitment and selection processes, but also throughout the employment cycle of every member of staff. We are committed to comply with our legal responsibilities under the Disability Discrimination Act to make "reasonable adjustments" to a person's working conditions wherever possible.

## Charitable and Political Donations

No charitable or political donations were made in the year (2010/11 £nil).

## Dividends

It is not proposed to declare a dividend for the year (2010/11 £nil).

# Directors' Report and Business Review (continued)

## Corporate Governance

The Company is a wholly owned subsidiary of TTL, which in turn is controlled by TfL, which appoints all the directors of the Company. The Board of the Company, through its Articles and Memorandum of Association and management structure, implements the corporate aims and controls laid down by TfL. Particulars in respect of corporate governance can be found in TfL's Annual Governance Statement.

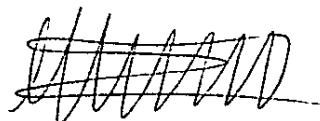
## Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board on 19 June 2012 and signed on behalf of the Board by

A handwritten signature in black ink, appearing to be 'H. Carter', written over a series of horizontal lines.

H. Carter

Company Secretary

# Statement of Directors' Responsibilities

## In Respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs") and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with Adopted IFRSs, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

# Independent Auditor's Report

## To the Members of London Bus Services Limited

We have audited the financial statements of London Bus Services Limited for the year ended 31 March 2012 set out on pages 7 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2012 and of its result for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Independent Auditor's Report

## To the Members of London Bus Services Limited (continued)

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Robert Brent (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

28 June 2012



# Income Statement

## Income Statement

Year ended 31 March

|                                                                  |      | 2012      | 2011      |
|------------------------------------------------------------------|------|-----------|-----------|
|                                                                  | Note | £m        | £m        |
| Revenue                                                          | 1    | 1,379.3   | 1,322.0   |
| Net operating costs                                              |      | (1,897.7) | (1,884.4) |
| Operating loss                                                   | 2    | (518.4)   | (562.4)   |
| Grant income                                                     |      | 518.4     | 563.6     |
| Other gains and losses                                           | 4    | 5.2       | (0.1)     |
| Total profit from operations                                     |      | 5.2       | 1.1       |
| Financial expenses                                               | 8    | (5.7)     | (5.7)     |
| Profit/(loss) before taxation                                    |      | (0.5)     | (4.6)     |
| Income tax credit                                                | 9    | 0.5       | 0.6       |
| Profit/(loss) for the year attributable to owners of the Company |      | -         | (4.0)     |

## Statement of Comprehensive Income

Year ended 31 March

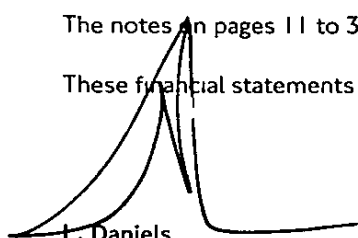
|                                                                               | 2012 | 2011  |
|-------------------------------------------------------------------------------|------|-------|
|                                                                               | £m   | £m    |
| Profit/(loss) for the year                                                    | -    | (4.0) |
| Other comprehensive income                                                    | -    | -     |
| Total comprehensive income for the year attributable to owners of the Company | -    | (4.0) |

# Statement of Financial Position

|                                                           |      | 31 March<br>2012 | 31 March<br>2011 |
|-----------------------------------------------------------|------|------------------|------------------|
|                                                           | Note | £m               | £m               |
| <b>Non-current assets</b>                                 |      |                  |                  |
| Intangible assets                                         | 10   | 9.0              | 30.2             |
| Property, plant and equipment                             | 11   | 258.2            | 302.3            |
| Investment properties                                     | 12   | 6.0              | 1.4              |
| Investments                                               | 13   | -                | -                |
| Trade and other receivables                               | 14   | 0.2              | -                |
|                                                           |      | <u>273.4</u>     | <u>333.9</u>     |
| <b>Current assets</b>                                     |      |                  |                  |
| Inventories                                               | 15   | 0.1              | 0.1              |
| Trade and other receivables                               | 14   | 79.4             | 83.4             |
| Cash and cash equivalents                                 | 16   | 0.5              | 0.3              |
|                                                           |      | <u>80.0</u>      | <u>83.8</u>      |
| <b>Current liabilities</b>                                |      |                  |                  |
| Trade and other payables                                  | 17   | (82.4)           | (125.6)          |
| Provisions                                                | 18   | (3.8)            | (2.4)            |
|                                                           |      | <u>(86.2)</u>    | <u>(128.0)</u>   |
| <b>Non-current liabilities</b>                            |      |                  |                  |
| Trade and other payables                                  | 17   | (4.3)            | (6.5)            |
| Provisions                                                | 18   | (0.2)            | (0.1)            |
| Borrowings                                                | 19   | (128.5)          | (128.5)          |
| Deferred grant                                            | 20   | (133.2)          | (153.6)          |
|                                                           |      | <u>(266.2)</u>   | <u>(288.7)</u>   |
| <b>Net assets</b>                                         |      | <u>1.0</u>       | <u>1.0</u>       |
| <b>Equity</b>                                             |      |                  |                  |
| Share capital                                             | 21   | 1.0              | 1.0              |
| Retained earnings                                         |      | -                | -                |
| <b>Total equity attributable to owners of the Company</b> |      | <u>1.0</u>       | <u>1.0</u>       |

The notes on pages 11 to 37 form part of these financial statements

These financial statements were approved by the Board on 19 June 2012 and signed on its behalf by



L. Daniels

Director

Company Registration Number 03914787

## Statement of Changes in Equity

|                                            | Share capital<br>£m | Retained<br>earnings<br>£m | Total<br>£m |
|--------------------------------------------|---------------------|----------------------------|-------------|
| At 1 April 2010                            | 1.0                 | 4.0                        | 5.0         |
| Loss for the year                          | -                   | (4.0)                      | (4.0)       |
| Other comprehensive income and expenditure | -                   | -                          | -           |
| At 31 March 2011                           | 1.0                 | -                          | 1.0         |
| Profit for the year                        | -                   | -                          | -           |
| Other comprehensive income and expenditure | -                   | -                          | -           |
| At 31 March 2012                           | 1.0                 | -                          | 1.0         |

# Statement of Cash Flows

Year ended 31 March

|                                                                   | Note | 2012<br>£m        | 2011<br>£m        |
|-------------------------------------------------------------------|------|-------------------|-------------------|
| <b>Cash generated from operating activities</b>                   |      |                   |                   |
| Profit/(loss) for the year                                        |      | -                 | (4 0)             |
| <i>Adjustments for</i>                                            |      |                   |                   |
| (Gain)/loss on disposal of plant and equipment                    | 4    | (0 6)             | 0 2               |
| Financial expenses                                                | 8    | 5.7               | 5 7               |
| Amortisation of intangible assets                                 | 10   | 1.5               | 1 8               |
| Depreciation of property, plant and equipment                     | 11   | 25.9              | 24 7              |
| Change in fair value of investment properties                     | 12   | (4 6)             | (0 1)             |
| Decrease/(increase) in trade and other receivables                |      | 3 8               | (2 4)             |
| (Decrease)/increase in trade and other payables                   |      | (45.1)            | 16 9              |
| Increase/(decrease) in provisions                                 |      | 1.5               | (1 1)             |
| Release of deferred grant to the Income Statement                 |      | (13.1)            | (10 7)            |
| <b>Net cash (utilised by)/generated from operating activities</b> |      | <u>(25 0)</u>     | <u>31 0</u>       |
| <b>Cash flows from investing activities</b>                       |      |                   |                   |
| Proceeds from disposal of property, plant and equipment           |      | 0.6               | -                 |
| Acquisition of intangible assets                                  |      | (0.8)             | (18 2)            |
| Acquisition of property, plant and equipment                      |      | (19.2)            | (65 0)            |
| Capital grants received                                           |      | <u>50.3</u>       | <u>58 1</u>       |
| <b>Net cash generated from/(utilised by) investing activities</b> |      | <u>30.9</u>       | <u>(25 1)</u>     |
| <b>Cash flows from financing activities</b>                       |      |                   |                   |
| Interest paid                                                     |      | <u>(5.7)</u>      | <u>(5 7)</u>      |
| <b>Net cash utilised by financing activities</b>                  |      | <u>(5.7)</u>      | <u>(5 7)</u>      |
| <b>Net cash movement in the year</b>                              |      | <b>0.2</b>        | <b>0 2</b>        |
| Cash and cash equivalents at the start of the year                |      | <u>0.3</u>        | <u>0 1</u>        |
| <b>Cash and cash equivalents at the end of the year</b>           | 16   | <u><b>0.5</b></u> | <u><b>0 3</b></u> |

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# Accounting Policies

## a) Reporting entity

The Company is domiciled in the United Kingdom ("UK"). The Company's registration number is 03914787. The address of the Company's registered office is Windsor House, 42 – 50 Victoria Street, London, SW1H 0TL.

## b) Statement of accounting policies

This section explains the Company's main accounting policies which, unless otherwise stated, have been applied consistently to all periods presented in these financial statements.

## c) Basis of preparation

### *Statement of Compliance*

These financial statements have been prepared in accordance with Adopted IFRSs.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs on transition from previous GAAP. The following exemptions have been taken in these financial statements:

- The Company has elected to use the previous UK Generally Accepted Accounting Practice ("UK GAAP") valuation as the deemed cost for all property, plant and equipment,
- The Company has elected to use the previous UK GAAP valuation as the value for all investment properties.

### *Basis of measurement*

The accounts are made up to 31 March and have been prepared under the accruals concept and in accordance with the historical cost accounting convention, modified by the revaluation of certain categories of non-current assets.

Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the Company's financial performance.

## d) Uses of estimates and judgements

The preparation of financial statements in conformity with Adopted IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed below.

### *Leases*

In assessing whether a lease is an operating lease or a finance lease, judgement needs to be exercised in determining whether or not substantially all the risks and rewards of ownership of the leased asset are held by the Company. Given that finance leases are recognised as liabilities, and operating leases are not, this can have a significant effect on the reported financial position of the Company.

## Accounting Policies (continued)

### d) Uses of estimates and judgements (continued)

#### *Provisions*

Judgement and estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by the Company. This can be very complex, especially when there is a wide range of possible outcomes.

### e) New standards and interpretations not yet adopted

Standards and interpretations issued by the International Accounting Standards Board ("IASB") are only applicable if endorsed by the EU.

The following revisions to IFRS will be applicable in future periods, subject to endorsement where applicable. These have been issued but have not been applied by the Company in these financial statements.

- IFRS 9 *Financial Instruments* (mandatory for year commencing on or after 1 January 2013)
- Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* (mandatory for year commencing on or after 1 July 2011)
- IFRS 10 *Consolidated Financial Statements* (mandatory for year commencing on or after 1 January 2013)
- IFRS 11 *Joint Arrangements* (mandatory for year commencing on or after 1 January 2013)
- IFRS 12 *Disclosure of Interests in Other Entities* (mandatory for year commencing on or after 1 January 2013)
- IFRS 13 *Fair Value Measurement* (mandatory for year commencing on or after 1 January 2013)
- Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* (mandatory for year commencing on or after 1 July 2012)
- Amendments to IAS 12 *Deferred Tax – Recovery of Underlying Assets* (mandatory for year commencing on or after 1 July 2012)
- IAS 19 *(as revised in 2011) Employee Benefits* (mandatory for year commencing on or after 1 January 2013)
- IAS 27 *(as revised in 2011) Separate Financial Statements* (mandatory for year commencing on or after 1 January 2013)
- IAS 28 *(as revised in 2011) Investments in Associates and other Joint Ventures* (mandatory for year commencing on or after 1 January 2013)

The Company does not consider that any standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

### f) Going concern

The financial statements have been prepared on a going concern basis, which the directors believe to be appropriate for the following reasons:

The Company is dependent on funds provided to it by TfL, its ultimate parent, in order to ensure working capital requirements are satisfied. TfL has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make such funds available to the Company.

## Accounting Policies (continued)

### f) Going concern (continued)

The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any Company placing reliance on other entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these financial statements they have no reason to believe that it will not do so.

Based on this undertaking, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

### g) Revenue

Revenue comprises traffic revenue and other revenue.

#### Traffic revenue

##### *Fares collected*

This relates to passenger fares income from bus transport in the Greater London area. This is recognised as revenue in the financial year in which the travel is completed.

##### *Revenue in respect of free travel for the elderly and disabled*

This relates to amounts receivable from the London Borough Councils and County Authorities in respect of free and reduced fare travel for the elderly and disabled. This is recognised as revenue in the financial year in which the travel is completed.

##### *Other traffic revenue*

This comprises income from sponsorship of bus routes and out of county. Sponsorship is recognised on an accruals basis over the term of the agreement. Out of county is recognised in the financial year in which the travel is completed.

##### *Other revenue*

##### *Rents receivable*

This is recognised on a straight line basis over the term of the lease.

##### *Commercial advertising*

This revenue is recognised on an accruals basis in accordance with the detail of the relevant agreements.

##### *Other revenue*

This comprises income from third party contributors and fellow Group undertakings. Both types of income are recognised on an accruals basis and third party contributions are, also, in accordance with the detail of the relevant agreements.

## Accounting Policies (continued)

### h) Grants and other funding

Grants and other contributions received towards the cost of capital expenditure are recorded as deferred grant on the Statement of Financial Position and released to the Income Statement over the estimated useful economic life of the asset to which the grant relates

Revenue grants received for the funding of operations are credited to the Income Statement in the period to which they relate

### i) Leases (the Company as a lessee)

#### *Leased assets*

Leases are operating leases and the leased assets are not recognised in the Company's Statement of Financial Position

#### *Lease payments*

Payments made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease

### j) Leases (the Company as a lessor)

Rental income from operating leases and initial direct costs are recognised on a straight-line basis over the term of the relevant lease

### k) Employee benefits

#### *Defined contribution scheme*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligation for contributions to defined contribution pension plans are recognised as an employee benefit expense in the Income Statement in the periods during which services are rendered by employees

#### *Defined benefit plans – multi-employer exemption*

The majority of employees are members of a defined benefit scheme to which the Company contributes. However, it is not possible for the Company to identify its share of the underlying assets and defined benefit obligation of the scheme on a consistent and reasonable basis. This is because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. For this reason, as permitted by the multi-employer exemption in IAS 19 *Employee benefits* ("IAS 19"), the scheme is accounted for as a defined contribution scheme and the Company's contributions are charged to the Income Statement as incurred. The disclosures required under IAS 19 are given in note 7.



## Accounting Policies (continued)

### k) Employee benefits (continued)

#### *Other employee benefits*

Other short and long term employee benefits, including holiday pay and long service leave, are measured on an undiscounted basis and recognised as an expense over the period in which they accrue

### l) Financial expenses

Financial expenses comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the Income Statement using the effective interest method.

### m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the Income Statement except to the extent that they relate to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same tax authority and the Company has the right of set off.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## Accounting Policies (continued)

### n) Intangible assets

Software costs are measured at cost less accumulated amortisation and accumulated impairment losses

Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, unless such lives are indefinite

The useful lives for software costs are between 3 and 10 years

Assets under construction are measured at cost and not amortised

### o) Property, plant and equipment

#### *Recognition and measurement*

Infrastructure consists of land, bus stations, garages, bus shelters, properties attached to infrastructure which are not separable from infrastructure, and properties attached to infrastructure which are used to facilitate the service provision and are limited in use by operational constraints. Some of these properties generate revenues which are considered to be incidental to the Company's activities

Infrastructure, plant and equipment and rolling stock are measured at cost less accumulated depreciation

Assets under construction are measured at cost

#### *Depreciation*

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value

Depreciation is recognised in the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset

The estimated useful lives for the current and comparative periods are as follows

|                     |                         |
|---------------------|-------------------------|
| Infrastructure      | Between 10 and 30 years |
| Other property      | Between 20 and 50 years |
| Plant and equipment | Between 3 and 40 years  |

Assets under construction are not depreciated

Depreciation methods, useful lives and residual values are reviewed at each financial year end and revised if appropriate. The effect of such adjustment being prospectively recognised as a change of estimate

## Accounting Policies (continued)

### p) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value with any changes therein recognised in the Income Statement in the period in which they arise. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. Investment properties held at fair value are not subject to depreciation.

Properties are valued by internal and external professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Properties with a carrying value in excess of £5,000,000 are valued annually. Properties with a value in excess of £250,000 but less than £5,000,000 are revalued every three years. Properties with a value in excess of £100,000 but less than £250,000 are revalued every five years.

An investment property is derecognised upon disposal. Any gain or loss arising on derecognition of the property is included in the Income Statement in the period in which the property is derecognised. The gain or loss on disposal of the property is calculated as the difference between the proceeds on disposal and the carrying amount of the asset.

A mix of internal and external professionally qualified valuers is used to measure fair value.

### q) Inventories

Equipment and materials held for use in a capital programme are accounted for as inventory until they are issued to the project, at which stage they become part of assets under construction.

Inventories are stated at the lower of cost and net realisable value less provision for obsolescence. Cost comprises direct materials and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### r) Impairment

#### *Non-financial assets*

At each Statement of Financial Position date, the Company reviews the carrying amount of those assets that are subject to amortisation to determine whether there is an indication that any of those assets has suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

## Accounting Policies (continued)

### r) Impairment (continued)

Impairment occurs when an asset's carrying value is below its recoverable amount. An asset's recoverable amount is the higher of its value in use and its fair value less costs to sell.

An impairment review is completed for all assets and cash generating units on an annual basis and additionally when there is an indication that an asset may be impaired.

All impairment losses are recognised in the Income Statement.

### s) Provisions

A provision is recognised in the Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability where the effect of discounting is material.

### t) Financial instruments

Financial instruments are classified in the appropriate categories as defined in IAS 39 *Financial Instruments Recognition and measurement* ("IAS 39").

The Company determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each financial year-end.

The Company has the following categories of financial instruments:

#### ***Loans and receivables***

Non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, do not qualify as trading assets and have not been designated as either 'fair value through profit or loss' or 'available for sale'. Such assets are carried at amortised cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognised in the Income Statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### ***Trade and other receivables***

Trade and other receivables are recognised initially at fair value and subsequently at amortised cost. For trade receivables this is after an allowance for estimated impairment. The allowance is based on objective evidence that the Company will not be able to recover all amounts due, through a review of all accounts and prior experience collecting outstanding balances. Changes in the carrying amount of the allowance are recognised in the Income Statement.

#### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances, call deposits with maturity of less than or equal to three months.

## Accounting Policies (continued)

### t) Financial instruments (continued)

#### *Financial liabilities measured at amortised cost*

All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. Non-derivative financial liabilities are initially recognised at the fair value of the consideration received, less directly attributable issue costs. After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the Income Statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

#### *Trade and other payables*

Trade and other payables are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

#### *Impairment of financial assets*

A financial asset is assessed at each Statement of Financial Position date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant assets are tested for impairment on an individual basis. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Income Statement.

All impairment losses are recognised in the Income Statement.

# Notes to the Financial Statements

## 1 Revenue

Year ended 31 March

|                                                                | 2012<br>£m     | % of<br>total | 2011<br>£m     | % of<br>total |
|----------------------------------------------------------------|----------------|---------------|----------------|---------------|
| <b>Traffic revenue</b>                                         |                |               |                |               |
| Fares collected                                                | 1,127.5        | 81.7%         | 1,068.6        | 80.8%         |
| Revenue in respect of free travel for the elderly and disabled | 207.8          | 15.1%         | 188.6          | 14.3%         |
| Other                                                          | 3.3            | 0.2%          | 9.4            | 0.7%          |
|                                                                | <u>1,338.6</u> | <u>97.0%</u>  | <u>1,266.6</u> | <u>95.8%</u>  |
| <b>Other revenue</b>                                           |                |               |                |               |
| Rents, advertising and other revenue                           | 40.7           | 3.0%          | 55.4           | 4.2%          |
| <b>Total revenue</b>                                           | <u>1,379.3</u> | <u>100.0%</u> | <u>1,322.0</u> | <u>100.0%</u> |

## 2 Operating loss

Year ended 31 March

|                                                            | Note | 2012<br>£m           | 2011<br>£m           |
|------------------------------------------------------------|------|----------------------|----------------------|
| The operating loss is stated after charging/(crediting)    |      |                      |                      |
| <b>Intangible assets and property, plant and equipment</b> |      |                      |                      |
| Amortisation of intangible assets                          | 10   | 1.5                  | 1.8                  |
| Depreciation of property, plant and equipment              | 11   | 25.9                 | 24.7                 |
| Release of deferred capital grants to Income Statement     | 20   | (13.1)               | (10.7)               |
| <b>Other operating costs</b>                               |      |                      |                      |
| Employee costs                                             | 5    | 37.2                 | 38.0                 |
| Payments under operating leases                            |      | 1.9                  | 2.5                  |
|                                                            |      | <u>2012<br/>£000</u> | <u>2011<br/>£000</u> |
| <b>Auditor's remuneration</b>                              |      |                      |                      |
| Fees for the audit of these financial statements           |      | 55                   | 45                   |
| Fees for non-audit services                                |      | 5                    | -                    |
|                                                            |      | <u>60</u>            | <u>45</u>            |

## 3 Grant income

Year ended 31 March

|                                   | 2012<br>£m   | 2011<br>£m   |
|-----------------------------------|--------------|--------------|
| Grant from TfL to fund operations | <u>518.4</u> | <u>563.6</u> |

## Notes to the Financial Statements (continued)

### 4 Other gains and losses

Year ended 31 March

|                                                    |      | 2012       | 2011         |
|----------------------------------------------------|------|------------|--------------|
|                                                    | Note | £m         | £m           |
| Net gain/(loss) on disposal of plant and equipment |      | 0.6        | (0.2)        |
| Revaluation of investment properties               | 12   | <u>4.6</u> | <u>0.1</u>   |
|                                                    |      | <u>5.2</u> | <u>(0.1)</u> |

### 5 Employee costs

Year ended 31 March

|                                                                              |      | 2012       | 2011       |
|------------------------------------------------------------------------------|------|------------|------------|
|                                                                              | Note | Number     | Number     |
| The average number of persons (including directors) employed in the year was |      | <u>635</u> | <u>750</u> |

|                                        |   | 2012        | 2011        |
|----------------------------------------|---|-------------|-------------|
|                                        |   | £m          | £m          |
| Their aggregate remuneration comprised |   |             |             |
| Wages and salaries                     |   | 28.3        | 29.0        |
| Social security costs                  |   | 2.5         | 2.4         |
| Pension costs                          | 7 | <u>6.4</u>  | <u>6.6</u>  |
|                                        |   | <u>37.2</u> | <u>38.0</u> |

# Notes to the Financial Statements (continued)

## 6 Directors' emoluments

|                                                                                                                | 2012<br>Number | 2011<br>Number |
|----------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Number of directors who were remunerated by the Company during the year                                        | 2              | 2              |
| The Company made contributions to a defined contribution scheme on behalf of the following number of directors | <u>2</u>       | <u>2</u>       |

Directors' emoluments and benefits were borne by other Group companies for 2 directors (2010/11 4 directors)

|                                                   | 2012<br>£     | 2011<br>£     |
|---------------------------------------------------|---------------|---------------|
| The directors received the following remuneration |               |               |
| Salaries, fees and benefits in kind               | 311,323       | 294,135       |
| Pension contributions                             | <u>24,690</u> | <u>24,231</u> |

The highest paid director received the following remuneration

|                                     |               |               |
|-------------------------------------|---------------|---------------|
| Salaries, fees and benefits in kind | 157,644       | 149,711       |
| Pension contributions               | <u>12,279</u> | <u>12,279</u> |

At 31 March, the highest paid director had accrued pensions of

|                            |               |               |
|----------------------------|---------------|---------------|
| TfL defined benefit scheme | <u>55,380</u> | <u>53,243</u> |
|----------------------------|---------------|---------------|

The statutory remuneration disclosures for directors have been distorted in the year ended 31 March 2012 by the timing of payroll payments. Disclosure is made of remuneration received by directors during the year. Transport for London ("TfL") operates a number of payrolls on behalf of its subsidiary companies, the majority of which pay on a four-weekly cycle, with thirteen payments in most years. Approximately once in every twenty two years, the timing of the payroll is such that there are fourteen payments in the financial year. This occurred for one of TfL's payrolls in the current year. The inclusion of the additional payment has the effect of increasing reported remuneration, without affecting the underlying annual remuneration earned.

The amounts reported in the table above represent the amounts paid to the directors during the year, and for 2011/12 include the additional payment. The base salary of the highest paid director has not increased from the previous year.



# Notes to the Financial Statements (continued)

## 7 Pensions

### a) Background

The Company offers retirement plans to its employees. The majority of the Company's employees were members of the Public Sector Section of the TfL Pension Fund, which is a final salary scheme established under trust. Benefits are based on employees' length of service and final pensionable pay. The Fund's Trustee is the TfL Trustee Company Limited, a wholly owned subsidiary of TfL. Under the rules of the Fund, its 18 trustee directors are nominated in equal numbers by TfL and on behalf of the Fund's membership.

Every three years, the TfL Pension Fund's Actuary makes valuations and recommends the level of contributions to be made by the participating employers to ensure long-term solvency of the Fund. The latest valuation of the Fund was carried out as at 31 March 2009 by the Actuary, a partner of consulting actuaries Towers Watson (formerly Watson Wyatt), using the projected unit method.

A revised Schedule of Contributions was agreed between the Trustee and the employers following the 2009 formal funding valuation of the TfL Pension Fund.

For the Public Sector Section, employer's contributions for the period from 1 April 2010 until 31 March 2020 will continue to be 31.0%, with additional lump sum payments due in 2018, 2019 and 2020.

### Other schemes

The Company also contributes to various small schemes.

### b) Accounting

The Company's ultimate parent, TfL, and the Company's fellow subsidiaries participate in the Public Sector Section of the TfL Pension Fund and it is not possible to identify the Company's share of the underlying assets and defined benefit obligation. This is because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. Thus, in accordance with IAS 19, the Company treats contributions to the Public Sector Section as if they were contributions to a defined contribution plan. The Company's contributions to the Fund of £6.4 million (2010/11 £6.5 million) have been charged to the Income Statement.

A valuation of the Public Sector Section has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2012. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, whilst the present value of the sections' defined benefit obligation is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The defined benefit obligation for the Public Sector Section has been calculated using the mortality assumptions adopted for the latest funding valuation as at 31 March 2009. Standard mortality tables were used, adjusted to reflect the recent mortality experience of the Fund's pensioners at that date. An allowance was made for future mortality improvements in line with the medium cohort projections.

The IAS 19 deficit of the Public Sector Section at 31 March 2012 was £2,134.3 million (2011 £1,492.6 million). As stated above, it is not possible to identify the Company's particular share of the deficit. Further details of the Public Sector Section position can be found in the Statement of Accounts of TfL.

# Notes to the Financial Statements (continued)

## 7 Pensions (continued)

IAS 19 specifies how key assumptions should be derived and applied. These assumptions are often different to the assumptions adopted by the pension scheme actuary and trustees in determining the funding position of pension schemes.

The IAS 19 valuation is broadly based on the Section's assets being valued at market value at the Statement of Financial Position date with the defined benefit obligation being discounted at the rate of return on high quality corporate bonds of equivalent term to the defined benefit obligation. The major assumptions used in this valuation were:

|                                                               | 2012 | 2011 |
|---------------------------------------------------------------|------|------|
| At 31 March                                                   | %    | %    |
| Inflation                                                     | 3.10 | 3.50 |
| Rate of increase in salaries                                  | 3.85 | 4.25 |
| Rate of increase in pensions in payment and deferred pensions | 3.10 | 3.50 |
| Discount rate                                                 | 4.75 | 5.65 |
| Investment return                                             | 5.90 | 7.36 |

The fair value of the Section's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Section's defined benefit obligations, which are derived from cash flow projections over long periods and thus inherently uncertain, were as shown below. Also shown are the expected long term rates of return which are the best estimates chosen from a range of possible assumptions and, due to the time-scale covered, may not necessarily be borne out in practice.

| At 31 March                                           | 2012            |                   | 2011            |                   |
|-------------------------------------------------------|-----------------|-------------------|-----------------|-------------------|
|                                                       | Expected return | Value at 31 March | Expected return | Value at 31 March |
|                                                       | % pa            | £m                | % pa            | £m                |
| Equities                                              | 6.4             | 3,886.9           | 7.8             | 3,779.7           |
| Bonds                                                 | 3.8             | 1,841.3           | 5.0             | 1,629.4           |
| Cash, property and other assets                       | 2.8             | 29.4              | 4.0             | 11.3              |
| Total market value of assets                          |                 | 5,757.6           |                 | 5,420.4           |
| Actuarial value of Section defined benefit obligation |                 | (7,891.9)         |                 | (6,913.0)         |
| Deficit in the Section                                |                 | (2,134.3)         |                 | (1,492.6)         |

The figures above include the assets and defined benefit obligation of the entire Public Sector Section of the TfL Pension Fund, and include members who are employed by, and whose contributions are made by Transport for London and its subsidiaries. This is because, as stated above, it is not possible to identify the Company's particular share.

### Other schemes

Contributions of £81,000 (2010/11: £66,000) have been charged to the Income Statement towards various smaller Funds.

# Notes to the Financial Statements (continued)

## 8 Financial expenses

|                            | 2012<br>£m | 2011<br>£m |
|----------------------------|------------|------------|
| Interest on loans from TfL | <u>5.7</u> | <u>5.7</u> |

The weighted average interest rate charged on the loans from TfL was 4.4% (2010/11 4.4%)

## 9 Taxation

The credit for the year, based on the rate of corporation tax of 26% (2011 28%), comprised

|                                       | 2012<br>£m   | 2011<br>£m   |
|---------------------------------------|--------------|--------------|
| <b>Current tax</b>                    |              |              |
| Adjustments in respect of prior years | <u>(0.5)</u> | <u>(0.6)</u> |

During the year, the Company received repayable tax credits of £0.5 million (2010/11 £0.6 million) in respect of claims for Land Remediation Relief for prior years

### Reconciliation of taxation credit

*Year ended 31 March*

|                                                                                            | 2012<br>£m   | 2011<br>£m   |
|--------------------------------------------------------------------------------------------|--------------|--------------|
| Loss before tax                                                                            | <u>(0.5)</u> | <u>(4.6)</u> |
| Loss before tax multiplied by standard rate of corporation tax in the UK of 26% (2011 28%) | (0.1)        | (1.3)        |
| Effects of                                                                                 |              |              |
| Non-taxable and non-deductible items                                                       | (1.2)        | (0.1)        |
| Utilisation of brought forward tax losses for which no deferred tax was recognised         | (2.3)        | (3.1)        |
| Amount charged to the current tax computation for which no deferred tax was recognised     | 3.6          | 4.5          |
| Prior period adjustment                                                                    | <u>(0.5)</u> | <u>(0.6)</u> |
| Income tax credit for the year                                                             | <u>(0.5)</u> | <u>(0.6)</u> |

# Notes to the Financial Statements (continued)

## 9 Taxation (continued)

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items

|                                  | 2012<br>£m  | 2011<br>£m  |
|----------------------------------|-------------|-------------|
| Deductible temporary differences | 53.8        | 52.9        |
| Tax losses                       | 12.0        | 12.4        |
|                                  | <u>65.8</u> | <u>65.3</u> |

The tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits thereon.

### Recognised deferred tax assets/(liabilities)

Deferred tax assets have been recognised to the extent of the deferred tax liabilities at the balance sheet date. Their movements during the years were in respect of the following items:

|                                           | Balance at 1 April<br>£m | Movement in<br>profit or loss<br>£m | Movement in<br>other<br>comprehensive<br>income<br>£m | Balance at 31 March<br>£m |
|-------------------------------------------|--------------------------|-------------------------------------|-------------------------------------------------------|---------------------------|
| <i>For the year ended 31 March 2012</i>   |                          |                                     |                                                       |                           |
| <b>Deferred tax assets</b>                |                          |                                     |                                                       |                           |
| Deferred government grants                | -                        | 0.8                                 | -                                                     | 0.8                       |
| <b>Deferred tax liabilities</b>           |                          |                                     |                                                       |                           |
| Investment properties                     | -                        | (0.8)                               | -                                                     | (0.8)                     |
| <b>Net deferred tax asset/(liability)</b> | <u>-</u>                 | <u>-</u>                            | <u>-</u>                                              | <u>-</u>                  |
| <i>For the year ended 31 March 2011</i>   |                          |                                     |                                                       |                           |
| <b>Deferred tax assets</b>                |                          |                                     |                                                       |                           |
| Deferred government grants                | -                        | -                                   | -                                                     | -                         |
| <b>Deferred tax liabilities</b>           |                          |                                     |                                                       |                           |
| Investment properties                     | -                        | -                                   | -                                                     | -                         |
| <b>Net deferred tax asset/(liability)</b> | <u>-</u>                 | <u>-</u>                            | <u>-</u>                                              | <u>-</u>                  |

## Notes to the Financial Statements (continued)

### 9 Taxation (continued)

The corporation tax rate was reduced from 28% to 26% on 1 April 2011 and from 26% to 24% on 1 April 2012. The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce further to 22% by 2014.

The reduction in the rate to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012. Deferred tax balances at 31 March 2012 have therefore been calculated using this corporation tax rate of 24% (2011: 26%).

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Company's future current tax charge and deferred tax asset/liability accordingly.

# Notes to the Financial Statements (continued)

## 10 Intangible assets

|                                          | Note | Software costs<br>£m | Assets under construction<br>£m | Total<br>£m |
|------------------------------------------|------|----------------------|---------------------------------|-------------|
| <b>Cost</b>                              |      |                      |                                 |             |
| At 1 April 2011                          |      | 30.8                 | 7.8                             | 38.6        |
| Additions                                |      | 0.8                  | -                               | 0.8         |
| Transfers to fellow Group undertakings   |      | (14.4)               | -                               | (14.4)      |
| Transfers (to)/from other asset class    |      | 1.2                  | (7.8)                           | (6.6)       |
| At 31 March 2012                         |      | <u>18.4</u>          | <u>-</u>                        | <u>18.4</u> |
| <b>Amortisation</b>                      |      |                      |                                 |             |
| At 1 April 2011                          |      | 8.4                  | -                               | 8.4         |
| Charge for the year                      | 2    | 1.5                  | -                               | 1.5         |
| Transfers to fellow Group undertakings   |      | (0.5)                | -                               | (0.5)       |
| At 31 March 2012                         |      | <u>9.4</u>           | <u>-</u>                        | <u>9.4</u>  |
| Net book value at 31 March 2012          |      | <u>9.0</u>           | <u>-</u>                        | <u>9.0</u>  |
| Net book value at 31 March 2011          |      | <u>22.4</u>          | <u>7.8</u>                      | <u>30.2</u> |
| <b>Cost</b>                              |      |                      |                                 |             |
| At 1 April 2010                          |      | 16.5                 | 3.9                             | 20.4        |
| Additions                                |      | -                    | 3.9                             | 3.9         |
| Transfers from fellow Group undertakings |      | 14.3                 | -                               | 14.3        |
| At 31 March 2011                         |      | <u>30.8</u>          | <u>7.8</u>                      | <u>38.6</u> |
| <b>Amortisation</b>                      |      |                      |                                 |             |
| At 1 April 2010                          |      | 6.6                  | -                               | 6.6         |
| Charge for the year                      | 2    | 1.8                  | -                               | 1.8         |
| Balance at 31 March 2011                 |      | <u>8.4</u>           | <u>-</u>                        | <u>8.4</u>  |

Intangible assets consist wholly of software costs

# Notes to the Financial Statements (continued)

## 11 Property, plant and equipment

a) Property, plant and equipment at 31 March 2012 comprised the following elements:

|                                        | Note | Infrastructure<br>and other<br>property<br>£m | Plant and<br>equipment<br>£m | Assets under<br>construction<br>£m | Total<br>£m  |
|----------------------------------------|------|-----------------------------------------------|------------------------------|------------------------------------|--------------|
| <b>Cost</b>                            |      |                                               |                              |                                    |              |
| At 1 April 2011                        |      | 254.3                                         | 182.0                        | 13.3                               | 449.6        |
| Additions                              |      | 5.7                                           | 12.0                         | 1.2                                | 18.9         |
| Transfers to fellow Group undertakings |      | (33.3)                                        | (12.4)                       | -                                  | (45.7)       |
| Transfers (to)/from other asset class  |      | 1.5                                           | 6.7                          | (1.6)                              | 6.6          |
| Disposals                              |      | (4.6)                                         | (6.9)                        | -                                  | (11.5)       |
| At 31 March 2012                       |      | <u>223.6</u>                                  | <u>181.4</u>                 | <u>12.9</u>                        | <u>417.9</u> |
| <b>Depreciation</b>                    |      |                                               |                              |                                    |              |
| At 1 April 2011                        |      | 73.3                                          | 74.0                         | -                                  | 147.3        |
| Charge for the year                    | 2    | 9.9                                           | 16.0                         | -                                  | 25.9         |
| Transfers to fellow Group undertakings |      | (1.3)                                         | (0.7)                        | -                                  | (2.0)        |
| Disposals                              |      | (4.6)                                         | (6.9)                        | -                                  | (11.5)       |
| At 31 March 2012                       |      | <u>77.3</u>                                   | <u>82.4</u>                  | <u>-</u>                           | <u>159.7</u> |
| Net book value at 31 March 2012        |      | <u>146.3</u>                                  | <u>99.0</u>                  | <u>12.9</u>                        | <u>258.2</u> |
| Net book value at 31 March 2011        |      | <u>181.0</u>                                  | <u>108.0</u>                 | <u>13.3</u>                        | <u>302.3</u> |

# Notes to the Financial Statements (continued)

## 11 Property, plant and equipment (continued)

b) Property, plant and equipment at 31 March 2011 comprised the following elements:

|                                            | Note | Infrastructure<br>and other<br>property<br>£m | Plant and<br>equipment<br>£m | Assets under<br>construction<br>£m | Total<br>£m  |
|--------------------------------------------|------|-----------------------------------------------|------------------------------|------------------------------------|--------------|
| <b>Cost</b>                                |      |                                               |                              |                                    |              |
| At 1 April 2010                            |      | 178.0                                         | 153.8                        | 63.6                               | 395.4        |
| Additions                                  |      | 7.3                                           | 9.3                          | 2.3                                | 18.9         |
| Transferred from fellow Group undertakings |      | 30.7                                          | 12.4                         | -                                  | 43.1         |
| Transfers (to)/from other asset class      |      | 44.4                                          | 8.2                          | (52.6)                             | -            |
| Disposals                                  |      | (6.1)                                         | (1.7)                        | -                                  | (7.8)        |
| At 31 March 2011                           |      | <u>254.3</u>                                  | <u>182.0</u>                 | <u>13.3</u>                        | <u>449.6</u> |
| <b>Depreciation</b>                        |      |                                               |                              |                                    |              |
| At 1 April 2010                            |      | 69.1                                          | 61.1                         | -                                  | 130.2        |
| Charge for the year                        | 2    | 10.2                                          | 14.5                         | -                                  | 24.7         |
| Revaluation                                |      | (6.0)                                         | (1.6)                        | -                                  | (7.6)        |
| At 31 March 2011                           |      | <u>73.3</u>                                   | <u>74.0</u>                  | <u>-</u>                           | <u>147.3</u> |

## c) Capital commitments

At 31 March 2012, the Company had capital commitments, which are contracted for but not provided for in the financial statements, amounting to £13.5 million (2011: £17.7 million)

## 12 Investment properties

|                              | 2012<br>£m | 2011<br>£m |
|------------------------------|------------|------------|
| <b>Valuation</b>             |            |            |
| At the beginning of the year | 1.4        | 1.3        |
| Fair value adjustments       | 4.6        | 0.1        |
| At 31 March                  | <u>6.0</u> | <u>1.4</u> |



## Notes to the Financial Statements (continued)

### 13 Investments

|             | 2012<br>£m | 2011<br>£m |
|-------------|------------|------------|
| At 31 March | <u>-</u>   | <u>-</u>   |

The Company owns 2 ordinary shares of £1 each in London Dial-a-Ride Limited, a dormant company

### 14 Trade and other receivables

|                                            | 2012<br>£m  | 2011<br>£m  |
|--------------------------------------------|-------------|-------------|
| <b>Non current</b>                         |             |             |
| Accrued income                             | <u>0.2</u>  | <u>-</u>    |
|                                            | <u>0.2</u>  | <u>-</u>    |
| <b>Current</b>                             |             |             |
| Trade receivables                          | 4.4         | 7.7         |
| Amounts due from fellow Group undertakings | 66.1        | 57.1        |
| Prepayments and accrued income             | 5.0         | 4.7         |
| Other receivables including taxation       | <u>3.9</u>  | <u>13.9</u> |
|                                            | <u>79.4</u> | <u>83.4</u> |

### 15 Inventories

|                               | 2012<br>£m | 2011<br>£m |
|-------------------------------|------------|------------|
| Raw materials and consumables | <u>0.1</u> | <u>0.1</u> |

Inventories consist of salt and general parts for maintenance of bus communications equipment

There is no material difference between the Statement of Financial Position value of inventories and their net realisable value

### 16 Cash and cash equivalents

|              | 2012<br>£m | 2011<br>£m |
|--------------|------------|------------|
| Cash at bank | <u>0.5</u> | <u>0.3</u> |

## Notes to the Financial Statements (continued)

### 17 Trade and other payables

|                                                        | 2012<br>£m  | 2011<br>£m   |
|--------------------------------------------------------|-------------|--------------|
| <b>Current</b>                                         |             |              |
| Trade payables                                         | 5.7         | 47.4         |
| Amounts due to fellow Group undertakings               | 4.8         | 4.5          |
| Other creditors including taxation and social security | 0.1         | 1.4          |
| Accruals and deferred income                           | <u>71.8</u> | <u>72.3</u>  |
|                                                        | <u>82.4</u> | <u>125.6</u> |
| <b>Non-current</b>                                     |             |              |
| Accruals, deferred income and retentions               | <u>4.3</u>  | <u>6.5</u>   |

### 18 Provisions

|                      | Contractual<br>provisions<br>£m | Other<br>provisions<br>£m | Total<br>£m |
|----------------------|---------------------------------|---------------------------|-------------|
| At 1 April 2010      | 2.0                             | 1.6                       | 3.6         |
| Utilised in the year | -                               | (0.1)                     | (0.1)       |
| Charged in the year  | 0.1                             | 0.1                       | 0.2         |
| Reversed in the year | (0.5)                           | (0.7)                     | (1.2)       |
| At 31 March 2011     | <u>1.6</u>                      | <u>0.9</u>                | <u>2.5</u>  |
| Utilised in the year | -                               | (0.6)                     | (0.6)       |
| Charged in the year  | -                               | 2.7                       | 2.7         |
| Reversed in the year | (0.4)                           | (0.2)                     | (0.6)       |
| At 31 March 2012     | <u>1.2</u>                      | <u>2.8</u>                | <u>4.0</u>  |
|                      |                                 |                           |             |
|                      | 2012<br>£m                      | 2011<br>£m                |             |
| Current              | 3.8                             | 2.4                       |             |
| Non-current          | <u>0.2</u>                      | <u>0.1</u>                |             |
|                      | <u>4.0</u>                      | <u>2.5</u>                |             |

# Notes to the Financial Statements (continued)

## 18 Provisions (continued)

### Contractual provisions

Contractual provisions related to property dilapidations and claims from third parties. These provisions are expected to be settled over the next three years.

### Other provisions

Other provisions related to voluntary severance, holiday pay and irrecoverable VAT. These provisions are expected to be settled within one year.

The provisions are provided for at the directors' best estimate of the likely outcome.

## 19 Borrowings

|                    | 2012<br>£m   | 2011<br>£m   |
|--------------------|--------------|--------------|
| Amounts due to TfL | <u>128.5</u> | <u>128.5</u> |

|                                              | 2012<br>%  | 2011<br>%  |
|----------------------------------------------|------------|------------|
| Weighted average interest rate on borrowings | <u>4.4</u> | <u>4.4</u> |

All borrowings are repayable on demand with a two year notice period.

## 20 Deferred grant

|                                                                                  | Note | 2012<br>£m    | 2011<br>£m    |
|----------------------------------------------------------------------------------|------|---------------|---------------|
| At 1 April                                                                       |      | 153.6         | 106.2         |
| Capital grant received during the year from TfL                                  |      | 49.6          | 42.5          |
| Third party contributions and other grants to fund property, plant and equipment |      | 0.7           | 15.6          |
| Transfers to fellow Group undertakings                                           |      | (57.6)        | -             |
| Release of deferred grant to the Income Statement                                |      |               |               |
| - to meet the depreciation charge                                                | 2    | <u>(13.1)</u> | <u>(10.7)</u> |
| At 31 March                                                                      |      | <u>133.2</u>  | <u>153.6</u>  |

There are no unfulfilled conditions or other contingencies attached to the grants from TfL or third party contributors.

# Notes to the Financial Statements (continued)

## 21 Share capital

|                                                | 2012 | 2011 |
|------------------------------------------------|------|------|
|                                                | £m   | £m   |
| Authorised, allotted, issued and fully paid up |      |      |
| 1,000,000 ordinary shares of £1 each           | 1.0  | 1.0  |

## 22 Financial instruments

### Financial risk management

The Company's financial risk management operations are ultimately carried out by the Board of Directors

The Company's financial instruments comprise cash and cash equivalents, borrowings from TfL, and various items such as trade receivables and payables that arise directly from operations. The Company finances operations from these financial instruments. The Company does not undertake speculative treasury transactions.

### Market risk

The Company is exposed to market risk in respect of interest rate risk only. The Company is not exposed to any material price or currency risk.

### Interest risk

The Company does not have any exposure to interest rate risk on its financial liabilities as the only interest bearing financial instruments are fixed interest loans from TfL.

The Company is exposed to interest rate risk on cash balances. This risk is managed by TfL, the Company's ultimate parent.

### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet contractual obligations. Credit risk arises from deposits with banks and financial institutions and from the Company's customers and suppliers.

The Company follows the TfL Finance Manual guidelines with respect to assessing the credit worthiness of potential customers. These guidelines include processes such as obtaining approval for credit limits over a set amount, performing credit checks and obtaining additional security when required.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk is low as the Company's ultimate parent TfL provides financial support to the Company.

Borrowings from TfL are repayable on demand with a two year notice period. The likelihood of TfL requesting payment for borrowings is considered to be remote.

# Notes to the Financial Statements (continued)

## 22 Financial instruments (continued)

### Categorisation of financial instruments

Cash and cash equivalents and trade and other receivables are all categorised as loans and receivables

Trade and other payables and borrowings are categorised as amortised cost

### Contractual maturity of financial liabilities

Borrowings from TfL are repayable on demand with a two year notice period. Interest on borrowings from TfL is paid annually. All other financial instruments are due within one year.

### Fair value of financial instruments

The Company's financial instruments are all either expected to be settled in the next financial year or are repayable on demand with a two year notice period.

The fair value of the Company's financial instruments is not materially different to their carrying value.

### Capital management

The capital structure of the Company consists entirely of shareholders' equity and borrowings from the Company's ultimate parent TfL.

The Company has no external borrowings and no externally imposed capital requirements.

It is not anticipated that the Company will require external borrowings for the foreseeable future as it is provided with grants and borrowings from its ultimate parent TfL to fund operations and capital projects.

The Company does not have a credit rating but TfL, the Company's ultimate parent which provides financial support to the Company, has a credit rating of AA+ with Fitch and Standard & Poor's and AAI with Moody's.

# Notes to the Financial Statements (continued)

## 23 Financial commitments

### a) Operating leases – The Company as lessee

The Company's operating lease agreements primarily relate to land, offices and motor vehicles. All leases have been entered into on commercial terms.

The Company is committed to the following future minimum lease payments under non-cancellable operating leases:

|                            | Property<br>£m | Motor<br>vehicles<br>£m | Total<br>£m |
|----------------------------|----------------|-------------------------|-------------|
| <b>At 31 March 2012</b>    |                |                         |             |
| Within one year            | 0.8            | 0.7                     | 1.5         |
| Between one and five years | 2.4            | 0.7                     | 3.1         |
| Later than five years      | 34.2           | -                       | 34.2        |
|                            | <u>37.4</u>    | <u>1.4</u>              | <u>38.8</u> |
| <b>At 31 March 2011</b>    |                |                         |             |
| Within one year            | 0.8            | 1.0                     | 1.8         |
| Between one and five years | 2.7            | 0.7                     | 3.4         |
| Later than five years      | 34.7           | -                       | 34.7        |
|                            | <u>38.2</u>    | <u>1.7</u>              | <u>39.9</u> |

### b) Operating leases – The Company as lessor

The Company leases out property and motor vehicles. The operating lease rentals earned in the year by the Company were £4.3 million (2010/11: £5.9 million).

At the Statement of Financial Position date, the Company had contracted for the following future minimum lease payments:

|                            | Property<br>£m | Motor<br>vehicles<br>£m | Total<br>£m |
|----------------------------|----------------|-------------------------|-------------|
| <b>At 31 March 2012</b>    |                |                         |             |
| Within one year            | 2.4            | 1.4                     | 3.8         |
| Between one and five years | 8.8            | 4.2                     | 13.0        |
| Later than five years      | 42.1           | 0.3                     | 42.4        |
|                            | <u>53.3</u>    | <u>5.9</u>              | <u>59.2</u> |
| <b>At 31 March 2011</b>    |                |                         |             |
| Within one year            | 2.6            | 1.5                     | 4.1         |
| Between one and five years | 9.0            | 5.6                     | 14.6        |
| Later than five years      | 43.8           | 0.6                     | 44.4        |
|                            | <u>55.4</u>    | <u>7.7</u>              | <u>63.1</u> |

# Notes to the Financial Statements (continued)

## 24 Events occurring after the reporting date

There have been no events occurring after the reporting date that would have a material impact on these financial statements

## 25 Related party transactions

During the year, none of the Company's directors, key management personnel or parties related to them have undertaken any material transactions with the Company (2010/11 none)

The Company is a wholly owned subsidiary of TfL. TfL is a statutory corporation established by section 154 of the Greater London Authority Act 1999 ("GLA Act 1999"). It is a functional body of the Greater London Authority ("GLA") and reports to the Mayor of London. TfL is classified as a government entity in accordance with IAS 24 *Related party transactions* ("IAS 24") and the Company is therefore also classified as a government entity in accordance with IAS 24.

The GLA and its other functional bodies, and all other subsidiaries of TfL, are considered to be related parties of the Company.

The Company has traded with the following related parties that are classified as government entities under IAS 24:

- Receipt of revenue and capital grants from TfL (as disclosed in notes 3 and 20)
- Payment of interest to TfL (as disclosed in note 8 and note 19).

The Company has completed the following transactions, which were collectively but not individually significant, with the following other related parties:

- Purchase of Barclays Cycle Hire Scheme assets from TfL,
- Sale of Barclays Cycle Hire Scheme assets to Transport Trading Limited ("TTL"),
- Received income for the provision of bus replacement services for London Underground Limited, Rail for London Limited and Docklands Light Railway Limited, and,
- Recharge for various services and provision of equipment by TfL, TTL and other TfL subsidiaries

## 26 Ultimate parent undertaking

The Company is a wholly owned subsidiary of TTL, a company controlled by TfL, which is the Company's ultimate parent.

The largest group in which the results of the Company are consolidated is that headed by TfL, a statutory corporation. The smallest group in which they are consolidated is that headed by TTL, a company incorporated in England and Wales.

Copies of TfL's accounts are available from Windsor House, 42-50 Victoria Street, London, SW1H 0TL.